97-84024-14

Criscuolo, Luigi

American policy as to
European investments

[New York?]

[1919?]

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Criscuolo, Luigi, 1887- 1957
American policy as to European investments, by Luigi Criscuolo... [New York? 1919?]
[4] p. 22½cm.

Caption title.
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ONLY ED

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FILM SIZE: 35mm REDUCTION RATIO: 11:1 IMAGE PLACEMENT: IA IIA IB IIB

DATE FILMED: 2-12-97 INITIALS: PB.

TRACKING # : MSH 21654

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AMERICAN POLICY AS TO EUROPEAN INVESTMENTS

BY LUIGI CRISCUOLO
Ex-Secretary, Advisory Finance Committee, U. S. Railroad Administration

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SOME of our legislators who know more about local politics than international finance recently emitted a loud protest against the British embargo on imports. For a while, we heard speeches which vied in eloquence with those of Patrick Henry and Daniel Webster, for once again America's ancient enemy — Great Britain — was making an attempt to boycott American goods (!). Later, the financiers explained the matter and Congress began once more talk railroad finance, income taxes and post-office buildings.

Great Britain can afford to place an embargo on the importation of American goods because she has her colonial markets to draw from, because her credit is high, because she has a great many friends here. She began to realize that, notwithstanding all this, if she continued to purchase American goods in large amounts without selling to this country a proportionate amount of British goods, the actual balance of trade would continue against her and she would have to continue to maintain an artificial control on sterling exchange which, while it is necessary under conditions now existing, is entirely undesirable from the financial standpoint.

Great Britain was financially supreme before the war and has no desire to surrender that supremacy now, even to America, if she can avoid it. While the war was on England bought enormous amounts of goods from the United States and paid for them by drawing on

the credits which the United States Treasury granted to her as it granted them to her other Allies. But the war's end creates an entirely different situation; the debts will have to be settled and England does not want to get in deeper and deeper into our obligation. We are to compete with England in trade and in finance. There are those who say that New York will supplant London as the chief financial market of the world. I hope it will, but I doubt that it will unless the Government officials in charge of financial problems change their provincial attitude or else are replaced by men who know their business.

It is folly to suppose that our European allies can continue to purchase goods here indefinitely and either pay for them in cash or by means of credits granted by the United States Government. The balance of trade against our allies — England, France, Belgium and Italy — can best be reduced by permitting them to openly sell their securities in this market. Not only securities of those governments, but those of municipalities and private corporations. The United States Government holds nearly nine billion dollars of securities which represent the loans made to foreign governments during the war and since the armistice was signed. The question of issuing bonds in the American market against this collateral has been discussed, but lately Secretary of the Treasury Glass came to the conclusion that such an issue, particularly one guaranteed by the United States Government, would compete with local issues and cause a disturbance in the security markets. So it was decided, at least temporarily, that no issue would be made on that basis.

It is to be hoped that such an issue will not be made for a long time. The American public is to be requested to subscribe to the Victory Loan in a few weeks and general opinion has it that the operation will be no light burden upon the public and the banks. The bonds are to be short term obligations — five year notes — and banks and business men wanting liquid assets will undoubtedly be attracted by them. The rate has not yet been fixed but Secretary Glass stated that it would depend largely upon money rates about the time the loan would be publicly offered.

If a collateral trust issue secured by foreign government obligations were to be made now, it would not allay the trouble caused by the exchange situation. It would be better for this government to hold them in the Treasury for their sale would not solve the international exchange question. If the artificial peg on exchange is to be removed on sterling (*) and lire, as it has been on French francs with the consequent disturbance, the only solution would seem to be the flotation of large loans of foreign governments and municipalities in this market. The issues would naturally have to be made in competition with our own securities but no difficulty would be experienced if such issues were made some time after Victory Loan campaign is over.

15 March, 1920 - e.

Secretary Glass recently went on record as being opposed to the offering in this market of either foreign government obligations or those of corporations organized to hold such securities, until after the Victory Loan is placed. This may be somewhat of a safeguard but I doubt that there is any possibility of competition between the issues. If anyone but Mr. Carter Glass were Secretary of the Treasury we would consider this decision as an outcome of the provincialism which has kept the United States in the background of finance for years. But I hope I am right in assuming that the man who helped to give life to the Federal Reserve System knows something about finance, although in this particular instance he may be ill-advised. For the manner in which important financial and economic questions are being approached in this country by Government officials demonstrates very clearly that those in power must surely be receiving bad advice.

The war was won by concentrating the military efforts of the Allies. Now that the financial and economic questions loom up before us, those in jurisdiction should see to in that a *united front* is created to solve the riddle of international finance, by the pooling of resources and debts and striking a balance, or in some manner to be decided upon by the world's foremost economists and practical financiers.

Italy cannot afford, like Great Britain, to declare an embargo against the importation of goods because she needs raw material and foodstuffs. She has not the money to pay for these goods in dollars but in time her productive capacity will enable her to not only pay her debts but amass a goodly balance. For the present, Italy needs a continuation of the credits she has been receiving from this generous Government, but in my opinion the time is nearing when she should receive these credits from private sources and not from Washington. American bankers and business men should be permitted to establish direct relations with Italian bankers and business men, just as French, English and Belgian bankers have made alliances with the Italians for some time past. In this manner, American business men will have an opportunity to transact business in Italy on an equal footing with those of other countries. If this Government is to retain the monopoly over the business of granting credits it will find that by the time it is ready to turn over the business to private interests, the Italian markets will have been captured by British, French and even Belgian middlemen who will sell their own goods, as well as American goods, to Italian buyers!

Let the American government take an intelligent view of the question by permitting preliminary negotiations for loans to be placed here by our Allies. Let the American government encourage this sort of financial business and properly safeguard it. It may be that dollar diplomacy is still unpopular at Washington, but it seems to me that if we are to work for the financial and commercial stability of America

and her Allies, it were better we resorted to some intelligent form of dollar diplomacy than see international financial chaos as one of the outcomes of the war due to lack of foresight on the part of those in whose power these questions rest.

It is now over six months since in another article I called attention to the need of an economic commission to dispose of these and other important questions. No real remedy seems to have been found. Government officials of all nations seem to be concerned with questions of the past, which of course should be settled, rather than with equally as important economic, financial and commercial questions of the future. Let us see to it that the wrists of our bankers and business men are loosened from the shackles of bureaucracy, and speed ahead!

LUIGI CRISCUOLO

(*) After the first proof of this article was received, it was announced first that Great Britain had removed its control on sterling and then that so far as the United States Government was concerned, restrictions on dealings in Italian lire had also been removed.

Mr. J. P. Morgan made the announcement on March 20th that his firm had received instructions from the British Government to suspend purchases of sterling exchange for Government account. Messrs. J. P. Morgan & Co., had been authorized to buy any cables that might be offered at the fixed rate of $4.76 7/16 per pound sterling, in minimum amounts of £10,000, and by this machinery the rate was maintained. With the removal of this control, sterling broke and some sales were made, according to reports, as low as 4.65 though the close for cables was given as 4.70.

On March 21st, Mr. Fred I. Kent, Director of the Division of Foreign Exchange of the Federal Reserve Board, issued a statement to the effect that the United States Government had removed its restrictions on dealings in lire. The regulation of lire by the Italian Institute of Exchange is still in force so that Italian banks will be forbidden to make transfers for account of American dealers at less than the minimum rate fixed by the Institute of Exchange. Up to recently this was at 6.35 but has just been changed to 6.45.

This action with respect to sterling and lire only emphasizes the need for careful study of international finance on the part of all parties directily interested.

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